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13 JUN 1975

The Honorable William Proxmire
Chairman, Subcommittee on Priorities
and Economy in Government
Joint Economic Committee
United States Capitol
Washington, D.C. 20510

Dear Senator Proxmire:

Your letter of 24 April discussed the points the Subcommittee would like covered when we present our briefing on the allocation of resources in the Soviet Union and China. We are preparing for this briefing and plan to present it on 18 June.

Your letter also set forth fourteen questions which you asked that we answer before the briefing. Dr. Proctor, the Deputy Director for Intelligence, subsequently met with you and members of your staff to discuss these questions and other matters of interest to the Subcommittee. He explained that we could not respond to questions 3, 4 and 8 because the pertinent data are not available. With respect to question 8 regarding Soviet research and development, we are able to provide some background on Soviet practices in the development and selection of competitive weapon systems.

The answers to the rest of your questions are enclosed as is an unclassified study comparing US and Soviet consumption. This study, although more than ten years old, remains a useful benchmark and describes our methodology.

Sincerely,

/s/ W. E. Colby

W. E. Colby
Director

Enclosures: as stated

LETTER TO: The Honorable William Proxmire
Chairman, Subcommittee on Priorities
and Economy in Government
Joint Economic Committee
United States Capitol
Washington, D.C. 20510

SUBJECT : Reply to Senator Proxmire's letter of 24
April requesting data on allocation of
resources in the Soviet Union and China

CONCUR:

[Redacted Signature]

Deputy Director for Intelligence

13 JUN 1975

Date

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- ✓ 1 - DDI w/answers to 14 questions
- 1 - D/OER w/answers to 14 questions
- 1 - D/OSR w/answers to 14 questions
- 1 - CSO files w/answers to 14 questions

DDI/CSO:

[Redacted Signature]

(13 June 1975)

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Remarks:

Attached is a response to Senator Proxmire's 24 April letter setting out fourteen questions to be answered before our briefing of the Joint Economic Committee.

I strongly recommend that you read only the letter itself and that you not read any of the material attached to the letter because I have gone over it very carefully.

[Signature]

Ed Proctor

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FROM: NAME, ADDRESS AND PHONE NO.	DATE
Deputy Director for Intelligence	13 June

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April 24, 1975

Mr. William E. Colby
Director of Central Intelligence
Central Intelligence Agency
Washington, D.C. 20505

Dear Mr. Colby:

I am delighted to know of your willingness to testify before the Subcommittee on Priorities and Economy in Government on the subject "Allocation of Resources in the Soviet Union and China." As in last year's hearing on the same subject, your testimony will be received in executive session so as to permit a free exchange of views, followed by a quick process of sanitizing the record for public release. I hope that the sanitizing process will be handled as quickly as possible. The classified transcript will be handled in accordance with the practice of other committees before whom you testify.

Your desire to not discuss operational matters will be respected. Our intent is to draw solely upon the analytical resources of the Central Intelligence Agency. I hope to be able to schedule the hearing sometime in the later part of May. The specific day can be arranged by our staffs.

The subcommittee is particularly interested in the following areas of economic concern:

1. A comparative analysis of the U.S., USSR, and PRC economies including allocation of resources by sector, trends and long-range projections, foreign economic assistance, and foreign trade.
2. A discussion of the systems of state economic planning in the USSR and PRC, distribution of income, pricing policies, and policies to deal with problems of inflation and unemployment.
3. A comparative analysis of the allocation of resources to military and space functions in the U.S., USSR and PRC including the consensus of the Intelligence Community as to the defense budgets of the USSR and PRC, and a discussion of the available techniques of comparison.

Mr. William E. Colby

Page Two

April 24, 1975

4. A discussion of the roles of the army and other branches of the military establishment in the USSR and PRC in the non-defense sectors of their respective economies. (I understand that in the PRC the army is employed extensively in non-military activities such as highway construction, land reclamation and flood control.)

In addition, it would greatly facilitate matters and add to the record of the hearing if you would furnish me with certain information prior to your appearance. My hope is that with this data we will be in a better position to ask more substantive questions and to avoid matters about which there is no dispute. I would therefore appreciate it if you would respond to the following requests:

1. Please provide an English translation of the defense budget figures as they appear in the official Soviet published documents for each of the past 10 years.

2. Please provide an English translation of those portions of the official Soviet published budget documents believed to contain defense and defense related expenditures not contained in the official figures for defense for each of the past 10 years.

3. Please provide a table showing the US defense and defense related expenditures for each of the past 10 years, expressed in the ruble amounts the Soviet Union would have to spend to replicate the same forces. In other words, I would like you to use the same "building block" approach employed to estimate what it would cost the US to purchase the Soviet forces in US dollars, to estimate what it would cost the Soviet Union to purchase US forces in rubles. I would like this table to be broken down in two ways, one using the breakdown contained in the National Defense Table on Page 71 of the US Document for Fiscal Year 1976, and the other using the major military programs breakdown in the defense budget table on Page 73 of the Fiscal 1976 Budget Document.

4. Please provide projections for the Soviet defense budget for each of the next five years, broken down in force structure, based on each of the following three varying options; that the Soviet Union will spend the same percent of GNP as it is now spending for defense, that it will spend a smaller percent of GNP on defense, and that it will spend a greater per-

Mr. William E. Colby

Page Three

April 24, 1975

cent of GNP on defense.

5. In estimating Soviet defense expenditures is any allowance made for inflation; if so what assumptions are made about price changes in the defense sector of the Soviet Economy? Is any account taken of inefficiency or loss of productivity due to bottlenecks, shortages or governmental red tape, or costs imposed upon the Soviet economy due to inflation in other countries?

6. What are the areas of uncertainty in the direct costing or building block method of estimating Soviet Union spending? What margins of error are assumed for each part of the Soviet force structure?

7. What assumption is made for the portion of total Soviet R & D spending allocable to military R & D? When was the assumption first made? What is the rationale for the assumption?

8. Our RDT&E budget has been divided into six categories: (1) research, (2) exploratory development, (3) advanced development, (4) engineering development, (5) operational systems development, and (6) management and support. Please provide estimates of the portions of Soviet RDT&E spent in each of the six categories, and discuss the differences in U.S. and USSR strategies with respect to emphasis on basic research as opposed to development, multiple designs, fly-offs, and numbers of prototypes.

9. In last year's testimony you indicated that the ratio of direct personnel costs to operating costs was higher in the Soviet Union than in the US (see page 33 of the published hearings). As pay scales for military personnel are far lower in the Soviet Union than in the U.S., I would have assumed that the opposite would be the case. Please explain your findings.

10. Several private groups such as the Institute of Strategic studies publish inventories of Soviet forces including number of types of weapons. Your estimates of the annual defense expenditures of the Soviet Union assume knowledge of annual production. Please explain how annual production estimates are derived for aircraft, missiles, ships, tanks, trucks, small arms, ammunition and other items.

Page Four

April 24, 1975

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11. What provision is made in your estimates of dollar costs to purchase Soviet forces for the austerity or complexity of the different types of weapons, or do you estimate the cost based on the nearest US equivalent of each Soviet weapon?

12. What would be the cost in dollars for the U.S. to build the following Soviet systems: the Mig 23, the Krivak class ship, the ABM deployed around Moscow, the SST?

13. Please discuss the method used to estimate the number of Soviet troops including the use, if any, of the Soviet tables of organization.

14. In last year's testimony you apparently used a method other than the direct cost or building block approach to estimate Soviet expenditures for civilian goods and services. For example, on page 52 of the published hearings, health expenditures in the USSR are shown as only 32 percent per capita compared to the US. However, there are more doctors per capita in the USSR, more hospital beds, and a system of comprehensive free medical care. Much the same can be said for education, shown as only 63 percent per capita compared to the US. How are your figures derived and would the results be different if estimates were made for how much the US would have to spend in dollars to replicate the same civilian expenditures in the Soviet Union?

I am very grateful for your cooperation and assistance. If at all possible, I would like to have your response to the above 14 requests about a week before your appearance.

Sincerely,


William Proxmire